

OFFICE OF THE MAYOR

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February 24, 2012

Dear Council President Higgins and City Council Members:

I present to you the City of Kent's adopted budget for the 2012 fiscal year. This budget continues to build the framework necessary to adjust to new economic realities.

For nearly four years, city government has been in persistent contraction. Rising costs and deteriorating revenues have forced reductions in every area of our budget. We've made significant cuts within internal support services, reduced staff, cut programs, and delayed projects until the time economic conditions stabilize.

Last year Council adopted a strategic goal to develop and implement a sustainable funding model for city services. This budget reflects a step in that direction.

The 2012 net Operating Budget totals \$143.9 million. Of that, \$60.9 million represents the General Fund budget (a \$25.9 million or 29.8% reduction from the 2009 budget). Another \$10.8 million applies to the annexation area. (The State requires we maintain a separate budget for the Panther Lake annexation area for 10 years.) The remainder of the Operating Budget is dedicated to other funds.

The largest component of the City's Operating Budget, the General Fund, provides funding for basic services, such as police, corrections, courts, street and park maintenance, community services, economic and community development, and internal support services. Since all of these services are provided by city employees, the General Fund's largest expense is wages and benefits. General Fund revenues come from taxes (sales, property and utility) and fees.

The Capital portion of the 2012 Budget totals \$13.5 million. Of that, \$11.5 million represents Enterprise Funds (revenue-generating services), \$860,000 applies to Capital Projects Funds, and the remainder of the Capital Budget is for Governmental Funds such as fleet replacement.

Revenue Impacts

Projected revenues in the 2012 General Fund have fallen below 2011 budget levels, due in part to reductions in utility taxes (lower garbage rates and a federal court decision that exempts telephone data plans from taxes) and low interest income (minimal funds to invest coupled with a low .15% rate of return). These reductions are only partially offset by the voter-capped 1% increase in property taxes and a projected 1% increase in sales tax revenues.

An unanticipated reality impacting the budget is that the original revenue estimates provided by King County for the Panther Lake annexation area were overstated by almost 15% or \$1.8 million. We have corrected the Annexation budget by bringing the projected 2012 revenues in line with actual history of monies received over the past year.

Budget reductions last spring at the state level resulted in a 3.4%, or roughly \$300,000 decrease in state-shared revenues received by the City, affecting streamlined sales tax mitigation, liquor excise tax, and special public safety funding. The impact of these cutbacks is split between the General Fund and the Criminal Justice Fund.

Since the State is looking at additional budget reductions this legislative session that will further jeopardize our state-shared revenues, the adopted budget assumes the following:

- The State continues to mitigate Kent for its \$4.9 million in lost revenue as a result of Streamlined Sales Tax.
- The State continues to provide a sales tax credit of 0.2% to mitigate the increased costs of serving the Panther Lake annexation area.

Required/Contracted Expenditures

While basic expenditures in the General Fund have remained flat, the adopted budget reflects significant additional spending as a result of state mandates, contracted county services and rate increases. These costs include:

- \$500,000 towards repayment of a 2002 loan from the water fund related to land acquisition for Kent Station.
- \$96,000 increase in animal control services provided by Regional Animal Services of King County, for a total cost of nearly \$387,000 for 2012. The city-county contract will end 12/31/2012.
- \$110,000 increase for election services and \$44,573 increase in voter registration services provided by King County.
- \$172,000 new expense for custodial, maintenance and security screening for the newly acquired Aukeen Court/Municipal Court building.
- \$54,000 increase in the Kent Pool operating contract, for a total cost of \$95,600 for 2012.
- \$572,000 in utility cost increases for city-owned facilities and parks (electricity, water, sewer, garbage, etc.), and assumption of some existing street lighting in neighborhoods.
- \$343,000 increase for state-mandated pension costs.
- \$373,000 increase for worker's compensation costs, largely due to remaining fire department claims. The City is still responsible for these outstanding claims, because they occurred prior to the formation of the Regional Fire Authority.
- \$247,857 increase in services provided by Valley Communications, for a total cost of \$2.36 million for 2012.
- \$40,000 to provide cultural competency training to all employees.

Transfers to the General Fund

The 2012 budget reflects an increase to the General Fund from the redistribution of existing costs from other funds.

- \$670,500 for 8 street maintenance positions moved from the Annexation budget to the General Fund, due to reduced annexation revenues and assignment of staff to ensure appropriate levels of service to all areas of the City.
- \$327,500 for 4.53 FTEs in Information Technology (IT) moved out of IT capital projects to the IT operating fund to accurately reflect the operational nature of the positions.

Top Priorities

- **Law Enforcement:** To maintain a strong level of public safety services, there is no reduction in the number of sworn officers.
- **Human Services:** Maintain 2011 funding levels for human services. With the departure of the fire department from city funding, the Council's traditional policy of dedicating 1% of the previous year's revenues to human services would have resulted in a \$733,000 budget, lower than the 2011 level. We augmented this amount by \$95,600 to maintain 2011 spending levels. The resulting budget of \$828,692 represents 1.13% of 2011 General Fund revenues.
- **Infrastructure:** Preserve the City's infrastructure assets, including utilities (water, sewer and drainage), streets, parks, facilities and technology. Create sustainable funding for ongoing improvements and maintenance.
- **Economic Development:** Focus on increasing economic development opportunities that provide jobs for Kent residents. Initiate actions that will simplify and streamline processes for developers.
- Increase connections and communication with our residents: Foster inclusiveness by celebrating our diversity and creating new gathering places. Increase mechanisms to communicate with our community.

Action Plan

In response to the continuing decline in revenues during 2011, Administration has implemented an aggressive savings plan to bring expenditures in line with projected reduced revenues, which is expected to result in expenditures coming in nearly \$2.8 million below the 2011 budget. These savings are accomplished by lagging and/or freezing vacant positions and reducing operating and maintenance costs.

The convergence of flat revenues and new expenses forces us to make the following changes in the 2012 budget:

- Eliminate 35.8 positions, including 23.5 vacant positions \$2,614,110
- Freeze 7 vacant public safety positions until such time as the State criminal justice funding increases sufficiently to cover the cost of these positions. Vacant public safety positions in the General Fund and Annexation Budget are expected to be filled.

In order to maintain core city services and infrastructure, the 2012 adopted budget includes the following fee increases:

- Restructure fees for permitting and development services \$400,000
- Apply a technology fee to permitting, parks and utility billing transactions to maintain technology systems critical to processing those transactions \$240,000.
- Increase business license fees \$100,000.
- Assess a new 4% internal utility tax (not applied to utility customers) to mitigate costs for fire hydrant maintenance and street lighting \$2,090,929.

Capital Budget

Revenues available for the general Capital Budget have dropped significantly since 2008: 35% decline in sales tax collections and 70% decrease in real estate excise taxes (REET) collected. This equates to \$6 million annually that is no longer available for debt service and capital projects. The decline in revenues has also placed extreme pressure on our ability to preserve and maintain our assets, including infrastructure, streets, parks, facilities and technology.

Traditionally, through Council policy, 25% of the general sales tax collected is dedicated to funding general capital needs of the City. To provide a short-term financial fix, the adopted budget allocates an additional 5% of general sales tax to capital projects, resulting in a new allocation split of 70% to the General Fund and 30% to the Capital Fund.

The sharp drop in sales tax and REET revenues illustrates the importance of the Council's strategic goals related to establishing a stable funding model and augmenting economic development. In order to maintain quality residential and business environments, it is imperative we find a means to infuse cash into the general Capital Fund to compensate for the loss of these revenues. Engaging the public to help us meet this challenge will be a priority during 2012.

The budget includes funding for ongoing major repairs and preservation of our utilities infrastructure that affects water, sewer and drainage. The projects, which must be funded through utility rates and grants, include:

- Green River levees construct improvements that improve safety and lead to certification by FEMA (Federal Emergency Management Agency)
- Green River Trail remove giant sand bags and repair the pedestrian/bicycle trail
- Drainage re-route surface waters and reduce flooding in the Mill Creek Basin
- Water infrastructure improvements mandated by the federal and state governments

Conclusion

Our department directors and employees have worked hard during these rocky economic times to contribute solutions to our budget challenges. They have shouldered the reduction in revenues by additional workload, covering for each other during staff shortages, foregoing wage increases, sacrificing training, and scrimping on supplies. I appreciate their steadfast efforts as they attempt to maintain the services our customers expect.

My gratitude extends to the many volunteers in the community who have stepped in to provide much-needed work to maintain and enhance our parks, wetlands and open spaces; and for the instruction, mentorship and guidance our volunteers provide in many of Kent's recreation, human services and social programs.

And Council members, thank you for your continued diligence in developing policies and finding ways to provide the types and level of services that make our city attractive for families and businesses to thrive.

Respectfully,

Suzette Cooke

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Mayor